ARIZONA CORPORATION COMMISSION

May 19, 2009

The Honorable Sandra D. Kennedy
Commissioner
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

Re: Arizona Public Service Company – Docket No. E-01345A-08-0172 – Letters dated April 23, 24, and 29, 2009 Discussing 1,000 Foot Free Line Extension Policy

Dear Commissioner Kennedy:

By way of introducing Staff's responses, Staff offers the following background information.

Although the questions that have been posed focus primarily on the elimination of the 1,000 foot free line extension policy that was previously part of APS' Schedule 3, Staff notes that Schedule 3 contained other related provisions that were terminated concurrently with the elimination of the free footage policy. For residential customers, the 1,000 foot free policy might not apply in all circumstances for instance. If the extension cost was over $25,000, even if the distance involved was less than 1,000 feet, the new customer would undergo an economic feasibility analysis and advance the difference in costs. Further, the fixed 1,000 foot free extension provision of Schedule 3 did not extend to developers. In order to deal with the costs of extending service to developers, Schedule 3 instead set out an economic feasibility analysis to determine how much of the extension would be free.

Under the economic feasibility analysis, a developer desiring an extension of new service would submit a request for a line extension. On receipt of the request, APS would then evaluate whether the anticipated revenues from the developer could cover the costs of the extension of service. If it was economically feasible, APS would extend the service at no cost to the developer, potentially to a point beyond 1,000 feet. However, if the analysis proved that the extension would not be economical to APS, then the developer would be responsible for providing the amount necessary to make up the difference between the cost determined to be economically feasible. Consequently, for an economically unfeasible extension of service, a developer might receive much less than 1,000 feet free.

Additionally, it was typical for developers to fund the cost difference with advances in aid of construction. Consequently, under the economic feasibility analysis there was a means for the developer to ultimately see a refund of a portion, if not all, of the cost of extending service.

Thus, to get a complete perspective of the issue, the 1,000 foot free allowance should be considered in conjunction with the other related provisions that were also eliminated.

1. **APS and all parties to this docket that have been affected by this line extension policy (i.e., no free footage), please provide details on exactly how this policy has negatively or positively affected you and/or the persons/entities that you represent.**

   Although Staff is not directly affected by the no-free footage policy, Staff attempts to balance the ratepayer and utility interests in the evaluation of this issue. Staff has received recent consumer complaints relating to APS' Schedule 3. Generally, these complaints fall into the categories of (1) the costs quoted appearing too high and (2) quoted costs are not itemized. See attached summaries of consumer complaints.

   With respect to the utility interest, the likely effect is the possibility of a timing impact for the utility in the recovery of these costs.

   Useful background information appears in the January 29, 2008 Staff Report which is attached for your convenience.

2. **APS, Utilities Division Staff ("Staff") and the Residential Utilities Consumers Office ("RUCO"), please explain how the effect of the APS' no-free-footage line extension policy is being taken into consideration in APS' pending rate case.**

   Staff is not proposing any changes to the no-free-footage policy because it is the Commission's current policy on line extensions for electric utilities. It was first adopted for APS in Decision No. 69663 and has been subsequently adopted in other electric company rate cases. Consistent with the May 4, 2009 Term Sheet under Section II(B)(3) "Treatment of Schedule 3," Staff recommends the following in APS' pending rate case:

   "APS' Impact Fee proposal in the rate case would be withdrawn.

   The System Facilities Charge proposed by APS shall be withdrawn.

   Upon Commission approval of this settlement, APS shall file in this docket a revised Schedule 3 that is consistent with the Decision and includes clarification of charges, definitions, a schedule of charges and a requirement by APS to itemize customer quotes among other matters. In light of the Commission's continued interest in this issue, the Settlement Agreement may contain additional provisions for Schedule 3 that are revenue neutral to this settlement."

3. **APS, Staff and RUCO, please explain what benefits, if any, APS ratepayers may derive in APS' pending rate case from APS' no-free-footage line extension policy.**

In a settlement in principle that has been reached between APS and many other parties to the rate case, APS would account for the Schedule 3 receipts as revenue (as opposed to CIAC) for a specified period. This provision is intended to help bolster APS' financial position and credit ratings and help avoid having APS immediately file another general rate case and/or another emergency rate increase request.

4. **APS, Staff and RUCO, please explain what detriments, if any, APS ratepayers may see in APS' pending rate case as a result of APS' no-free-footage line extension policy.**

The no-free footage line extension policy can create a financial burden on new customers who no longer can avail themselves of a line extension policy that includes an allowance for free footage. The costs to individual customers of line extensions, where there is no free footage allowance, can be significant. Please see also the response to question 1 above.

5. **APS, Staff and RUCO, please explain what benefits, if any, APS ratepayers may derive in the future if APS maintains its current no-free-footage line extension policy.**

The benefits to APS' existing ratepayers, if APS maintains its current no-free-footage line extension policy, is that costs related to growth (i.e., line extension costs) are borne to a larger extent by the new customers, who pay the higher cost for those line extensions. The no-free-footage line extension policy was originally adopted during a time of rapid economic growth. The main reason for adopting the no-free-footage line extension policy was to have the causers of growth (new construction) pay more fully for the impacts of such growth, and to help minimize the impact of such rapid growth upon existing customers.

Ultimately, the benefit to ratepayers in the future from the current no-free-footage line extension policy is dependent upon the accounting and ratemaking treatment in a future APS rate case.

If the payments APS receives for line extensions are accounted for as revenue, and that revenue is fully recognized in the context of a future APS rate case, there would be a dollar for dollar reduction to the revenue requirement for the line extension revenue received in the test year.

If the payments APS receives for line extensions are accounted for as revenue, and that revenue is not recognized in the context of a future APS rate case, the benefit would inure primarily to APS and its shareholders, via increased cash flow and increased earnings, rather than to APS' ratepayers. To the extent that such increased cash flow and higher earnings assist APS in maintaining or improving its financial profile and raising its credit rating, there may be an indirect benefit experienced by ratepayers in the form of lower financing costs in a future APS rate case.

To the extent the payments APS receives for line extensions are accounted for as Contributions in Aid to Construction ("CIAC"), there would be a reduction to rate base in a future APS rate case. Additionally, as the CIAC is amortized, there would be a reduction to expenses.

A simple, illustrative single-test-year example of such impacts is as follows. Assume that in the test year in APS' next rate case, APS received $10 million in new customer payments for line extensions under 1,000 feet pursuant to the current no-free-footage line extension policy.

If this $10 million is accounted for as revenue, and that revenue is fully recognized in the test year in APS' next rate case, the revenue requirement to existing customers would be reduced by approximately $10 million.

If the $10 million were recognized as CIAC, rate base would be reduced by $10 million, less a related impact from Accumulated Deferred Income Taxes ("ADIT"), such that the net rate base deduction would be approximately $6 million. (This assumes for simplicity a combined federal and state income tax rate of 40 percent. The combined tax rate Staff used in the pending APS rate case is 39.36 percent.) In the context of that next APS rate case, the revenue requirement would be reduced by an amount that can be estimated by applying a pre-tax rate of return to the net rate base reduction, or approximately $746 thousand, plus the impact of CIAC amortization, estimated at $333 thousand per year, assuming for simplicity a 30-year amortization period, for a total reduction to the revenue requirement of approximately $1.1 million.

The benefits (and detriments) from the revenue versus CIAC treatment vary over time. The benefit from the revenue accounting treatment is short-term and basically occurs only for rates established based on the test year in which the line extension receipts were recognized as revenue. The benefit from the CIAC accounting is cumulative and builds over time. A more detailed comparative analysis of the impact of the alternative accounting and ratemaking treatments over time, and on a net present value basis, was attached to Staff witness Ralph Smith's direct testimony as Attachment RCS-6.

In order to provide additional perspective in answering this question, we will also discuss a scenario that assumes that the current no-free-footage line extension policy was <u>not</u> in effect during the test year presumed in the above illustrative example. Under this scenario, APS (rather than the new customers) would be required to finance the $10 million of new plant represented by the line extensions that were now presumed to be covered by a free-footage allowance. Under this scenario, there would be no CIAC offset to rate base, since APS was paying for the plant additions, and existing customers would then experience a revenue requirement that was higher than the one described above in the CIAC accounting example. In other words, because the CIAC offset to rate base did not exist, APS (rather than new customers) paid for the line extension costs attributable to the free footage allowance. As a consequence, the revenue requirement to existing customers would be higher by approximately $1.1 million.

As noted above, the impact from CIAC is cumulative over time. The revenue requirement burden on existing customers from line extension costs that are not addressed by CIAC would thus be expected to grow over time.

6. **APS, Staff and RUCO, please explain what detriments, if any, APS ratepayers may see in the future if APS maintains its current no-free-footage line extension policy.**

See response to question 4 above. In addition, the detriment that APS customers may see in the future is dependent upon the accounting and ratemaking treatment applied to line extension receipts in future APS rate cases, as explained in response to question 5. Different accounting and ratemaking treatments that could be applied to the payments APS receives for line extensions can have different short- and long-term impacts upon APS' revenue requirement in future rate cases. To the extent that APS ratepayers may experience short-term benefits related to a particular accounting and ratemaking methodology applied to receipts by APS under its current no-free-footage line extension policy, the consistent application of that method may also entail long-term detriments to APS ratepayers related to higher costs in the future.

7. **APS, Staff and RUCO, please explain what benefits and/or detriments, if any, APS ratepayers may see in APS' pending rate case if APS' no-free-footage line extension policy were modified in this case to allow some amount of free footage or monetary allowance. For example purposes, assume a free footage of 750 feet and a monetary allowance of $5,000.**

A benefit would be realized by new customers who would pay less for a new line extension. This modification to the line extension policy would impact APS and its existing ratepayers prospectively. At some point, likely in the rates resulting from APS' next general rate case, the impacts of this policy would begin to affect current ratepayers.

It would also affect APS' cash flow and earnings prospectively. Reinstating a free footage allowance and having a monetary allowance would be expected to reduce APS' cash flow, all other things being equal. It is unclear to what extent such a change would impact APS' credit ratings during the period between rate cases.

8. APS, Staff and RUCO, please explain what benefits and/or detriments, if any, APS ratepayers may see in the future if APS' s no-free-footage line extension policy were modified in this case to allow some amount of free footage or monetary allowance. Again, for example purposes, assume a free footage of 750 feet and a monetary allowance of $5,000.

See response to question 7 above.

The Staff hopes this information is responsive to your letter.

Sincerely,

Ernest G. Johnson
Director, Utilities Division

EGJ:red
Attachments

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Docket No. E-01345A-08-0172

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ORIGINAL

MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson EA for EGJ
Director
Utilities Division

DATE: January 29, 2008

RE: STAFF REPORT FOR ARIZONA PUBLIC SERVICE COMPANY'S SCHEDULE 3 DOCKET NOS. E-01345A-05-0816, E-01345A-05-0826 AND E-01345A-05-0827

Attached is the Staff Report on the Appropriate Accounting and Rate Treatment to be Afforded Incremental Schedule 3 Fees Expected to be Collected as a Result of the Elimination of Free Footage Allowances in Extending Distribution Lines to Serve New Customers.

EGJ:JD:red

Originator: James Dittmer, Consultant, Utilitech, Inc.

Attachment: Original and thirteen copies

Arizona Corporation Commission
DOCKETED
JAN 29 2008
DOCKETED BY nr

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA PUBLIC SERVICE COMPANY
DOCKET NOS. E-01345A-05-0816 ET AL

REPORT OF THE UTILITIES DIVISION STAFF ON THE APPROPRIATE ACCOUNTING AND RATE TREATMENT TO BE AFFORDED INCREMENTAL SCHEDULE 3 FEES EXPECTED TO BE COLLECTED AS A RESULT OF THE ELIMINATION OF FREE FOOTAGE ALLOWANCES IN EXTENDING DISTRIBUTION LINES TO SERVE NEW CUSTOMERS

JANUARY 29, 2008

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I. STAFF CONCLUSIONS AND RECOMMENDATIONS

Staff's significant conclusions, recommendations, and bases for such recommendations regarding the accounting and rate treatment to be afforded incremental receipts expected to be collected by Arizona Public Service Company ("APS" or "Company") as a result of eliminating the free footage allowance for distribution line extensions ordered by Arizona Corporation Commission ("ACC" or "Commission") Decision No. 69663 are summarized as follows:

- All fees received pursuant to elimination of the free footage allowance for distribution line extensions should be considered to be Contributions in Aid of Construction ("CIAC"). Pursuant to the Federal Energy Regulatory Commission's prescribed Uniform System of Accounts *General Plant Instruction,* such contributions should be credited to the plant accounts to which construction costs incurred by APS were charged when extending distribution lines to serve new customers. APS' proposal to record incremental fees expected to be collected pursuant to eliminating the free footage allowance as Miscellaneous Service Revenues should be rejected.

- Commissioner Mayes has raised questions of how the two methodologies being considered for recording Schedule 3 fees will 1) better provide benefits to customers over the short and long run *and,* 2) better mitigate future rate relief. Staff submits that *both* accounting/rate proposals will provide benefits to existing ratepayers over the short and long run and will also mitigate to some extent future rate relief required.

  It is reasonable to use a present value analysis both to measure benefits to customers over the long and short run and to evaluate the ability to mitigate future rate relief. As a general proposition, the extent or degree to which one methodology will *appear* to result in more present value savings to customers depends to a significant extent upon the discount rate employed to calculate the revenue requirement stream under the two different approaches.

  Discounting the revenue requirement streams under the two methodologies using the Company's before-tax cost of capital (12.07%) yields a slightly lower net present value of revenue requirements under the revenue methodology. Utilizing a lower discount rate, such as APS uses for resource planning purposes (8.0%), indicates that the CIAC methodology results in a lower net present value of revenue requirement streams. Under the CIAC methodology, customers receive *more nominal dollars of revenue requirement savings* from the Schedule 3 fees, though they must wait longer to receive such additional *nominal dollar* savings. That is why under a present value analysis, a *higher* assumed discount rate tends to show that the revenue methodology is better for ratepayers, while a *lower* assumed discount rate will tend to show that the CIAC methodology is more advantageous for ratepayers.[1]

Since a net present value comparison of benefits to ratepayers under the two proposals is inconclusive, Staff relies instead upon other practical and conceptual considerations for its proposal to recommend the CIAC methodology over the revenue methodology for recording incremental Schedule 3 fees.

- If this Commission were to permit APS to record the amounts expected to be collected to cover the cost of line extensions as revenues (over the recommendations of Staff to record such fees as CIAC), the amounts that APS initially collects under Schedule 3 should be deferred until APS files its next rate case, at which time the deferred Schedule 3 revenues should be credited in the development of APS' retail cost of service. APS argues in support of its revenue accounting proposal for the Schedule 3 fees that such methodology is most advantageous to ratepayers. The only way this APS conclusion could reasonably be considered correct is if retail ratepayers are credited for all Schedule 3 revenues received from inception of the Schedule 3 revision.

II. OVERVIEW AND HISTORY OF EVENTS LEADING TO ELIMINATION OF FREE FOOTAGE ALLOWANCE

Prior to the issuance of Decision No. 69663, new customers were provided free footage and/or distribution line extension construction cost allowances. Footage and/or costs in excess of prescribed "free allowance" parameters resulted in new customers paying potentially refundable "advances" and/or agreeing to pay special "facilities charges" calculated pursuant to an APS Economic Feasibility Study. Within Decision No. 69663 issued within Docket No. E-01345A-05-0816 et al, APS was ordered to file "revised line extension tariffs that eliminate any free footage or free allowance and remove any requirement for economic feasibility analysis as otherwise required pursuant to A.A.C. R14-2-207.C.1 and C.2"[2] The basis for this required tariff change is found at page 97 of Decision No. 69663 that states, in relevant part:

> *[W]e find that, in view of the unprecedented growth in APS' service territory, granting APS variances to A.A.C. R14-2-207.C.1 and C.2, which require a company to provide a specified footage of distribution line at no charge, is a necessary and appropriate measure to shift the burden of rising distribution infrastructure costs away from the current customer base to growth.*

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[1] In a present value analysis, the additional nominal dollars of future years savings are *discounted* back to arrive at their value stated in *today's dollars.* The higher the discount rate used to discount future nominal dollars of savings under the CIAC methodology, the lower the present value of such future revenue requirement savings.

[2] As FURTHER ORDERED found on page 156 of Decision No. 69663.

It is important to note three items surrounding this required tariff change. First, no party had advocated this change in prefiled testimony or exhibits.[3] This tariff change is being implemented pursuant to this Commission's own initiative. If any party had made such a proposal to eliminate the free footage allowance *along with a concurrent proposal to treat incremental receipts* from charging the cost of *all* distribution line extensions as *revenues*, that party undoubtedly would have, and most certainly should have, undertaken a calculation and proposed an adjustment to APS' retail cost of service to reflect the impact of such change upon APS' base rate revenue requirements.

Second, the incremental fees to be collected under the revised Schedule 3 are indisputably and unequivocally tied to the distribution plant construction cost required to be incurred to serve new retail customers. Thus, from Staff's perspective, it is intuitive that the *intent* of eliminating the free footage allowance is to defray the significant incremental investment *in distribution plant* that APS is specifically incurring to serve new retail customers.

Third, this tariff change is predicted by APS to significantly increase fees to be collected pursuant to Schedule 3. Specifically, within Exhibit D affixed to Mr. Thomas Mumaw's letter to this Commission dated December 20, 2007 (hereinafter referred to as "APS' December 20th letter"), APS predicts that it will receive incremental Schedule 3 line extension fees as follows:

Year	Amount
2008	$50 million
2009	117 million
2010	159 – 191 million

These are either *revenues* or *funds to offset current construction costs* – depending upon which accounting/rate treatment this Commission authorizes – that were never considered in any fashion within the development of the retail cost of service underlying the base rates authorized within Decision No. 69663.

III. POSSIBLE ACCOUNTING AND RATE TREATMENTS TO AFFORD SCHEDULE 3 RECEIPTS EXPECTED TO BE COLLECTED TO CONSTRUCT DISTRIBUTION LINE EXTENSIONS TO SERVE NEW CUSTOMERS

Staff has identified three possible accounting and rate treatments that could be afforded the Schedule 3 receipts anticipated to be collected to cover APS' costs to construct distribution line extensions to serve new retail customers – all of which have already been addressed in some fashion in various documents filed in Docket No. E-01345A-05-0816 et al since Decision No. 69633 was issued.

[3] APS proposed, and the Utilities Division Staff did not oppose, a construction cost limitation for new line extensions concurrent with the elimination of the free footage allowance. However, no party proposed complete elimination of all line extension cost limitations and free footage allowances that was ultimately ordered by this Commission.

First, as APS proposes, the fees could be recorded as Miscellaneous Service Revenues. Under such accounting/rate treatment, the fees would be considered and recorded as operating revenues available to cover, in part, APS' cost of serving retail customers. As long as there is any retail growth in APS' service territory, it can be expected that *some* amount of Miscellaneous Service Revenues in the form of Schedule 3 receipts would be available to consider within the cost of service employed to develop retail base rates.

Second, as Staff proposes, the fees could be treated as CIAC. Under the CIAC approach, Schedule 3 fees are ultimately recorded as a reduction to plant in service. The reduction in plant in service, in turn, results in a reduction to the retail cost of service in the form of a reduced return requirement, reduced depreciation expense and reduced property tax expense.

Third, the fees could be treated as cost-free capital in the development of the Company's overall weighted cost of capital. This approach is similar, though certainly not identical, to the CIAC approach. Under this approach, a balance sheet account for Cost-Free Contributed Capital would be established. Its balance would be included in the development of the Company's overall cost of capital along with the more traditional long term sources of capital such as common equity, preferred stock and long term debt.

The advantages and disadvantages of the three alternatives for the three different methods of treating the incremental Schedule 3 fees are discussed below.

A. Recording Schedule 3 fees as Miscellaneous Revenues

Advantages of, and arguments for, recording the Schedule 3 fees as Miscellaneous Revenues include:

- *If* base rates recently established pursuant to Decision No. 69663 are not immediately revised downward for the estimated impact of the Schedule 3 change, for some indeterminate period of time, APS will enjoy unanticipated earnings and cash flow. The increased earnings and cash flow will, no doubt, boost the interest coverage ratios and cash flow metrics that credit rating agencies review when analyzing the credit worthiness of APS' and PWCC's debt instruments. Better credit ratings boosted by the unanticipated windfall resulting from the Schedule 3 revenues *could*, in turn, reduce APS'/PWCC's borrowing costs. Further, the increased earnings *could* result in the delay of APS filing another retail rate case, although it is impossible to quantify how much of a delay, if any, would be attributable to allowing APS to retain the unanticipated earnings resulting from the Schedule 3 changes. If rates were not concurrently reduced for anticipated incremental Schedule 3 fees, most of the short term benefits noted herein would enure to the advantage of APS/PWCC shareholders. For reasons discussed below, Staff is recommending that APS *not* be allowed to retain for its shareholders incremental Schedule 3 fees received up until the time of APS' next retail rate case.

- Current or "existing" ratepayers will *initially* receive the largest revenue requirement savings under the revenue proposal, as long as appropriate regulatory treatment is adopted. Staff proposes that, *if* APS' methodology for recording such fees as revenues were adopted, APS should be ordered to defer such revenues in a regulatory liability account until APS' next rate case wherein such deferred revenues would be credited to APS' retail cost of service. If the incremental Schedule 3 fees are deferred for future crediting to APS' retail cost of service, most of the APS shareholder and credit metrics benefits listed in the first point described above would be eliminated. However, if Schedule 3 fees are initially deferred until APS' net retail rate case (as Staff recommends *if* the fees are to be recorded as revenues), current or "existing" ratepayers can expect that the otherwise-calculated retail revenue requirement developed in APS' *next* retail rate case will be fairly significantly reduced. The credit amortization of Schedule 3 revenues deferred would be in addition to, or above and beyond, the revenue requirement savings that would result from considering an ongoing level of Schedule 3 revenues in the cost of service determination. As APS notes, the revenue requirement savings under the revenue methodology is initially quite significant inasmuch the Schedule 3 revenues would result in nearly a dollar-for-dollar reduction in the otherwise-calculated retail revenue requirement.

Disadvantages of recording the Schedule 3 fees as "revenues" include:

- If the ACC were to allow APS to retain the windfall derived from recognizing Schedule 3 fees as revenues without concurrently requiring the incremental receipts to be deferred until APS' next retail rate case (over the recommendations of Staff), the noted "advantage" of a boost to earnings, cash flow and coverage ratios cited as an "Advantage" above, can be expected to be a short-lived, one-time event. Within APS' *next* retail rate filing, an "ongoing" level of Schedule 3 "revenues" will be considered and included within retail cost of service revenue requirement development. Once an ongoing level of Schedule 3 revenues are considered within the cost of service development underlying base rates, the one-time boost to earnings predicted for the next two-to-three years will cease to occur.

- The amount of Schedule 3 fees to be collected can be expected to be volatile and difficult to estimate for cost of service development. Indeed, APS has estimated the range to be collected over the next three years to be between $50 and $159 million per year. In future rate proceedings, the Commission will have to select the "ongoing" level of Schedule 3 revenues that it chooses to accept as a basis for reducing existing base rates. Inability to accurately predict the amount of Schedule 3 receipts will likely contribute to volatility in APS' earnings as "actual" revenues received could deviate significantly from rate-case-predicated receipt levels.

- While *initially* reducing rates *faster* and *more significantly* than other alternatives under consideration, eventually a cross-over point will be reached such that recording the Schedule 3 fees as CIAC – or a reduction to plant in service – results in a lower revenue requirement for retail ratepayers. From that point forward, it is likely that recording the Schedule 3 fees as a reduction to plant (i.e, as CIAC) will result in a lower revenue requirement than recording the fees as revenues.

B. Staff's Proposal of Treating the Incremental Schedule 3 Fees as CIAC

Arguments supporting Staff's proposal for treating the incremental Schedule 3 receipts as CIAC, which ultimately reduce net plant in service, include the following:

- The amount of Schedule 3 "fees" to be collected is tied exactly to expected costs to construct distribution lines to serve new customers. Thus, from a conceptual perspective, it is most appropriate to consider such receipts as *reductions* in plant investment rather than an ongoing stream of revenues available to meet any corporate purpose or reduce overall retail revenue requirements.

- APS should immediately and over the long run experience less earnings attrition than it otherwise would absent the significant Schedule 3 tariff modification. This result should occur because APS' incremental investment needed to serve each new customer will be significantly reduced.

- Retail ratepayers will receive a reduced revenue requirement over the life of the plant that facilitated the collection of the fees. Thus, under the CIAC proposal, there is better matching of costs and benefits than exists with the revenue approach.

- Recording incremental Schedule 3 receipts as CIAC will result in much less rate case controversy and earnings volatility than the proposal to record such receipts as revenues.

Disadvantages of the CIAC approach – which largely mirror the advantages of the revenue approach, include:

- The savings impact to "existing" ratepayers is much slower to be realized than under the revenue approach. While retail ratepayers will begin to realize revenue requirement savings under the CIAC approach in APS' next retail rate case, such savings will initially be much smaller than under the revenue approach.

- The *possible* delay in APS' filing another base rate case is reduced. It is much less likely that APS' *next* rate case will be significantly delayed under the CIAC approach.

- Any short-lived, one-time significant boost to earnings, cash flow and interest coverage ratios that would occur if the Schedule 3 fees were recorded as revenues (that would occur if Schedule 3 fees are *not* deferred as proposed by Staff) would not

> materialize under the CIAC approach, or certainly would be de minimus in relationship to APS' revenue approach.

C. *Treating Schedule 3 Fees as Cost-Free Capital*

Another accounting/rate approach that could be implemented would be to treat all Schedule 3 receipts as a cost-free source of funds in the development of the overall weighted cost of capital. This approach is very similar to the CIAC methodology, but with three distinct disadvantages. First, under the CIAC approach wherein plant is reduced, there would be an attendant savings in the form of reduced depreciation expense that would not materialize under the "cost-free capital" approach. Second, the reduction in recorded plant in service under the CIAC approach would also be expected to result in some amount of reduced property tax expense inasmuch as property taxes are influenced by the recorded book value of plant in service. If the Schedule 3 fees were recorded as cost-free capital rather than a reduction to recorded plant in service, the reduction in expected property tax expense would be forfeited.

Third, if the cost-free funds were considered in the development of the weighted overall cost of capital, revenue requirement savings for retail customers would be diluted. This dilution would occur because the cost-free funds provided exclusively by retail ratepayers would be considered in a total-APS capital structure that would also be supporting non-jurisdictional investments and possibly other investments that would not typically be afforded retail jurisdictional rate base recognition. We have affixed to this Staff Report as Exhibit No. 1 a schedule that demonstrates how treating the Schedule 3 fees as "cost-free capital" rather than CIAC/reduction to plant in service results in a higher revenue requirement – *even before considering and quantifying additional savings in the form of reduced depreciation expense and property tax expense*. Again, the increase in the revenue requirement under the "cost-free capital" approach occurs as a result of the fact that the benefits or savings from the "cost-free" funds being submitted exclusively by retail ratepayers would be indirectly allocated to non-retail-rate base investments (i.e., CWIP, wholesale rate base, non-utility investments, disallowed rate base items, etc.) under the cost-free capital approach.

Staff is also aware of Commissioner Pierce's December 10, 2007-dated letter wherein the Commissioner appears to be questioning whether it might be better for ratepayers if the Schedule 3 funds were considered as "revenues" (as APS has proposed) and again as "cost free" or "low cost" funds in the capital structure. Staff does not believe that it would be equitable to reflect the fees once as "revenues" in cost of service development *and again* as cost-free capital in the capital structure (or CIAC for that matter). If the Schedule 3 fees were to be reflected as revenues within the development of the cost of service they would be considered to be offsetting annual expenses or annual return requirements within a given annual reporting period, or more specifically, within a given test year. In effect, the "value" of one year's worth of Schedule 3 fees would be utilized to offset one year's worth of other operating expenses or one year's worth of return requirements. As the full value of a given year's worth of Schedule 3 fees under the revenue approach would have effectively been "used up," it would be inappropriate to again use these same Schedule 3 fees as cost free/low cost capital or as CIAC/reducing rate base. In summary, utilizing the Schedule 3 fees in both areas of cost of service development would result in a "double dip" to APS' shareholders, and therefore, Staff cannot endorse such approach.

IV. SHORT- AND LONG-TERM IMPACT TO CUSTOMERS OF EMPLOYING THE CIAC VERSUS REVENUE APPROACH

Clearly, over the short run, treating the Schedule 3 receipts as revenues will result in more significant reductions to retail base rates than the CIAC treatment. As the Company notes, the revenue approach yields a dollar-for-dollar rate impact that results in a faster and initially more significant impact to ratepayers in the early years following implementation of the Schedule 3 change. The CIAC approach *initially* results in a much smaller impact to retail rates. This result occurs because, under the CIAC approach, the Schedule 3 fees would be used to reduce rate base, which reduces the utility's return requirement by only a fraction of what occurs under the revenue approach. Importantly, over the life of the plant that generated the collection of the Schedule 3 fees, the total revenue requirement reduction under the CIAC methodology is greater in *nominal dollars* than under the revenue approach.

However, on a present value basis, whether or not the CIAC or revenue approach is more economic for ratepayers is largely dependent upon the interest rate employed to discount future revenue requirement streams estimated under each approach. Under the CIAC approach, revenue requirement savings for ratepayers resulting from the Schedule 3 receipts are slower to be realized than under the revenue approach. Holding all else constant, if those "future revenue requirement savings" resulting from the CIAC approach are discounted using a high discount rate, the CIAC approach would appear to be less economic to ratepayers on a present value basis. Conversely, if future revenue requirement savings under the CIAC approach are discounted using a relatively low discount rate, the CIAC approach will appear more economic for ratepayers.

Affixed to this Staff Report as Exhibit No. 2 is a printout of an analysis undertaken by APS regarding the net present value of 30 years of revenue requirements to ratepayer for a single vintage of Schedule 3 receipts. The analysis calculates the *nominal* revenue requirement under the CIAC and revenue approaches, and then discounts such revenue requirement streams to arrive at the net present value of revenue requirements under each approach. In the analysis APS assumed that $1,000 of incremental Schedule 3 receipts were collected to cover the cost of a line extension that has an expected life of 30 years. The key conclusions of the APS analysis are summarized as follows:

- Over the 30-year life of the line extension which facilitated the $1,000 Schedule 3 receipt, revenue requirements stated in *nominal dollars* is $1,346 *less* under the CIAC approach than under the revenue approach.

- When the nominal revenue requirements under the two approaches are discounted utilizing the Company's before-tax cost of capital (i.e., 12.07%), the net present value of revenue requirements is $100 *less* employing the revenue approach than occurs employing the CIAC approach.

- When the nominal revenue requirements are discounted utilizing an 8.0% interest rate (a rate that APS purports to frequently use for planning purposes), the net present value of revenue requirements is $125 *less* employing the CIAC approach than what occurs under the revenue approach.

In support of its revenue approach, APS claims in its December 20th letter to this Commission that:

- There is simply no question that APS' proposed revenue treatment renders benefits to both customers and APS compared to CIAC in both the short term and for many years to come.[4]

- Revenue treatment is advantageous to APS customers during *every* year of a 10-year analysis, producing a present value benefit of some $380 to $440 million, depending on the discount rate used and assuming Schedule 3 fees of $100 million annually.[5]

- Within a 30-year analysis, there is eventually a cross-over point wherein CIAC treatment becomes more advantageous than the revenue approach, but on a net present value basis, the revenue approach yields savings over the CIAC approach of $250 to $300 million.[6]

Staff takes exception to the assumptions employed by APS within its various multi-generational analyses, and also to APS' conclusion that there is "simply no question that APS's proposed revenue treatment renders benefits to both customers and APS compared to CIAC in both the short term and for many years to come."

In a nutshell, APS' 10-year and 30-year multi-vintage NPV analyses inappropriately and unfairly calculate revenue requirement savings under the revenue approach over a different period than is calculated under the CIAC approach. As described above, Staff submits that for a *given* vintage of Schedule 3 fees received, the net present value of revenue requirement savings to ratepayers is approximately equal over the life of the plant that generated the fees under both the revenue and CIAC approaches. Ignoring other considerations, with the net present value savings approximately equal under either approach, ratepayers should be indifferent as to which approach is adopted.[7]

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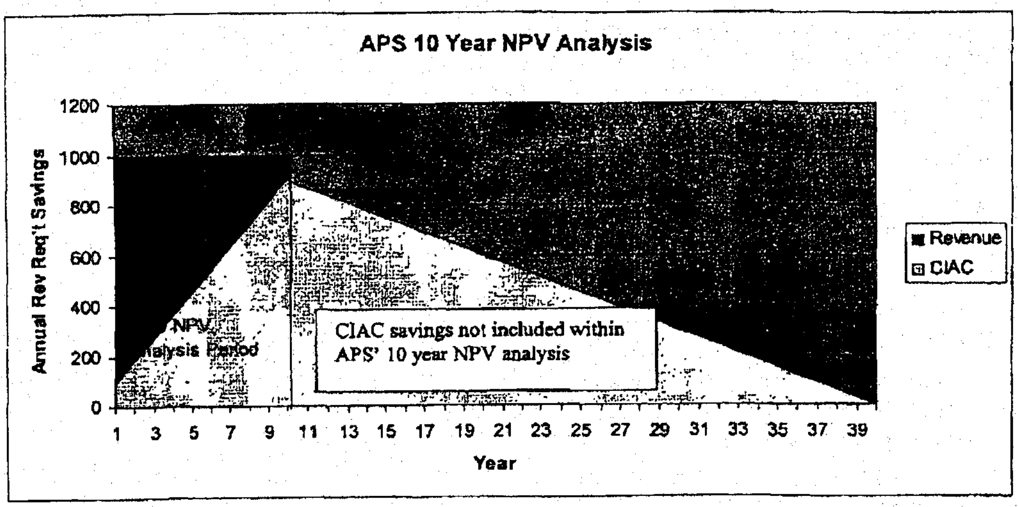
[4] Middle of page 4 of December 20, 2007-dated letter from Thomas Mumaw to the ACC.
[5] Last paragraph on page 5 of December 20, 2007-dated letter from Thomas Mumaw to the ACC.
[6] Last paragraph on page 5 of December 20, 2007-dated letter from Thomas Mumaw to the ACC.
[7] Staff submits that there are other considerations beyond the NPV analysis that strongly favor treating the Schedule 3 fees as CIAC. But from strictly a NPV analysis, ratepayers should be relatively indifferent as to which approach is adopted.

Within the 10-year analysis underlying APS' claim that ratepayers will realize $380 – 440 million of net present value revenue requirement savings under the revenue approach, APS has calculated the revenue requirement savings resulting from Schedule 3 fee "revenues" for 10 years. For Schedule 3 fees received in year 10 of the 10-year analysis, the revenue requirement savings under the CIAC approach have only been calculated for one year. As is always the case, savings under the CIAC approach enure to ratepayers over the life of the plant that generated the Schedule 3 fee. Therefore, with a 30-year plant life, as is assumed within APS' modeling exercise, for the tenth year or vintage of Schedule 3 receipts, the revenue requirement savings under the CIAC approach have only been quantified and considered for one of the 30 years in which revenue requirement savings under the CIAC approach are expected.

APS' mismatched analysis is graphically shown on the chart below. Within APS' ten-year NPV analysis the Company discounts the revenue requirement streams under the revenue and CIAC approach for only the first ten years. However, the Schedule 3 receipts received within an initial ten year period will generate CIAC revenue requirement savings for 40 years in total. In short and in sum, APS' 10-year NPV study mixes "apples and oranges" as it fails to consider and calculate savings under the CIAC approach for years 11 through 40 that would occur as a result of Schedule 3 fees received in years one through ten.



Similarly, in its 30-year analysis, APS again inappropriately cuts off its quantification of the net present value of revenue requirement savings under the CIAC approach at the end of 30 years rather than at the end of 60 years as should have appropriately been undertaken. By calculating all the early-years' revenue requirement savings resulting from the revenue approach, but ignoring subsequent years' related revenue requirement savings under the CIAC approach (i.e., beyond 10 and 30 years within APS' 10- and 30-year NPV studies, respectively), APS again creates a significant "mismatch" that results in a *bias* that erroneously indicates that the revenue approach will *forever* be beneficial to ratepayers.

If APS is permitted to record and retain for its shareholders all of the incremental Schedule 3 fees it begins to collect, it is possible that the timing of APS' next base rate application will be delayed beyond that which would occur under the CIAC approach. It is impossible for Staff to quantify the likelihood or length of any possible delay, but Staff would acknowledge that ratepayers *may* experience a benefit in the form of a delayed base rate increase if the revenue approach is adopted. However, Staff does not envision savings to ratepayers resulting from the possible delay in the timing of APS' next rate filing to approach the savings that ratepayers would realize if the Schedule 3 "revenues" were to be deferred until APS' next rate case – which is Staff's recommendation *if* APS were permitted to consider such Schedule 3 receipts as "revenues."

In short and in summary, Staff continues to maintain that, on a net present value basis, the impact to ratepayers under the revenue or CIAC approach is approximately the same. Accordingly, Staff takes strong exceptions to APS' claimed net present value analyses and ultimately to APS' conclusion that "[t]here is simply no question that APS' proposed revenue treatment renders benefits to both customers and APS compared to CIAC in both the short term and for many years to come."

V. SHORT- AND LONG-TERM IMPACT TO APS OF EMPLOYING THE REVENUE AND CIAC APPROACH

By far, the largest benefit to APS will occur over the next two-to-three years under the revenue approach *if the Company can convince this Commission to not concurrently reduce base rates in this proceeding* or *defer such receipts for future crediting to ratepayers.* As previously noted, if the Schedule 3 change were implemented without a concurrent order by this Commission to defer such incremental "revenues," APS' shareholders will enjoy an unanticipated and unwarranted increase in pre-tax income of between $50 and $159 million per year for years 2008 through 2010. In addition to increasing shareholder earnings above that which would be expected absent the Schedule 3 revision, cash flow indicators and interest coverage ratios will experience a short-lived, one-time improvement above that which would occur absent the Schedule 3 revision.

With the filing of APS' next retail rate application, the benefits of the revenue approach to APS' shareholders and to its other financial metrics will be largely eliminated. This result will occur inasmuch as the "ongoing" level of Schedule 3 revenues will be considered within cost of service development. In other words, the one-time windfall that APS could experience (if the Commission were to accept its proposal to record Schedule 3 fees without a concurrent adjustment to base rates) will have expired, and future earnings and other financial metrics will be similar under the revenue or CIAC approach from that time forward.

In its December 20, 2007-dated letter to this Commission, APS notes that the revenue approach results in an FFO/Debt ratio that is considerably improved relative to the CIAC approach. In particular, APS notes on Exhibit A to its December 20th letter that, under the revenue approach, the FFO/Debt ratio ranges from 19.2% to 20.3% for the years 2008 – 2010, but falls in the range of 18.1% to 16.2% under the CIAC approach. Staff would note two important items in this regard.

First, as can be observed on Exhibit A, APS assumes that its ACC jurisdictional return on equity will drop to approximately 6.0% over the three-year projection period without filing for additional retail rate relief. If APS filed for retail rate relief and were able to justify a need for relief (in line with its projections of deteriorating returns contained on Exhibit A to APS' December 20th letter), the projected FFO/Debt ratios would not drop to the low levels projected on Exhibit A under the CIAC approach for all years shown.

Second, calculation of FFO entails adding or subtracting, as is applicable, current period net deferred income tax expense to recorded book income. Under the CIAC approach, the *negative* deferred income tax expense that offsets the current income tax impact of CIAC results in a lower amount of calculated FFO. So long as the current formula for calculating FFO remains in effect, there will be a lower FFO amount calculated under the CIAC proposal than under the revenue approach for the foreseeable future. This difference could, at times, push the FFO/Debt ratio to the low end, or below the low end, of the range used by rating agencies as a guideline for an investment grade credit rating.

Staff reminds this Commission that the guidelines used by credit rating agencies are just that – guidelines. Utilities are not automatically or immediately downgraded if they fall below a guideline range for a period of time. Viewed in isolation, rigid adherence to a formula for calculating FFO, in conjunction with rigid adherence to an FFO/Debt guideline range for investment grade ratings, would suggest that the collection of additional CIAC will expose APS to a greater risk of a downgrade than would exist if the Schedule 3 modification had never been authorized. Intuitively, this outcome appears preposterous. It is simply difficult to envision a rating agency, if it truly understood what was being implemented, concluding that a downgrade should occur *as a result of APS effectively reducing its otherwise-calculated capital outlay or need for debt financing*. While Staff would acknowledge that the improvement in the FFO/Debt rating resulting from the recording of Schedule 3 fees as revenues is an argument supportive of the revenue approach, Staff is not convinced that rating agencies will automatically downgrade APS' credit rating when the FFO/Debt falls below the guideline range if the cause of the declining ratio is primarily the impact of negative deferred taxes stemming directly and exclusively from incremental CIAC collections under Schedule 3.

VI. APS' PROPOSAL TO RECORD SCHEDULE 3 FEES AS REVENUES IS EQUIVALENT TO APS' REBUTTAL POSITION TO ADOPT A "REVENUE ENHANCEMENT" PROPOSAL.

During the rate case, APS proposed for the first time in rebuttal testimony a request for authorization for some form of non-traditional "revenue enhancements." Items proposed included: recovery of accelerated depreciation, inclusion of Construction Work in Progress in rate base, as well as an attrition allowance. Staff opposed each of these "revenue enhancement" adjustments proposed by APS, and ultimately this Commission determined that none of the APS-proposed revenue enhancements should be adopted. It appears to Staff that APS' proposal to record the significant change in Schedule 3 tariff receipts as "Miscellaneous Revenues" could be yet another "revenue enhancement" proposal – not unlike APS' request for an attrition allowance. The negative impact on customers from adopting APS' proposal in this instance would be at least as great as it would have been for the Commission to have adopted the proposed attrition allowance, and certainly greater than would have been the case if the Commission had adopted CWIP in rate base or accelerated depreciation as proposed during the rebuttal phase of the rate case. In addition, APS' proposal regarding Schedule 3 receipts appears to be unprecedented, as opposed to the "revenue enhancement" proposals, each of which had been considered by the Commission in earlier proceedings. Staff fears that the impetus behind APS' efforts to have the Schedule 3 fees recorded as revenues rather than CIAC could be the hope that it can retain for its shareholders somewhere between $50 and $159 million per year of before-tax profits up until the time that it files its next retail rate case.

VII. GIVEN THAT FROM A RATE IMPACT PERSPECTIVE RATEPAYERS SHOULD BE INDIFFERENT OVER THE LONG RUN AS TO WHETHER THE CIAC APPROACH OR REVENUE APPROACH IS ADOPTED, STAFF BELIEVES THAT OTHER CONSIDERATIONS INDICATE THE CIAC METHODOLOGY IS THE PREFERRED APPROACH

As noted previously, Staff believes that whether one thinks that ratepayers are better off on a net present value ("NPV") basis under the CIAC or revenue approaches will be largely dependent upon the discount rate assumed. In any event, the NPV difference is not expected to be too significant regardless the approach adopted. Thus, from an NPV of revenue requirements perspective, ratepayers can be expected to be largely indifferent as to whether they achieve faster savings up front (i.e., the revenue approach) or more savings but over a longer period of time (i.e., the CIAC approach). While Staff believes that there is no clear cut preferred approach from an NPV revenue requirement perspective, Staff believes other considerations strongly favor adoption of the CIAC approach.

First, as previously noted, from a conceptual perspective, the purpose of collecting the Schedule 3 fees appears to be to defray the incremental investment cost being incurred to serve new customers. This conclusion is drawn merely by observing that the sole basis for the fees to be collected is the cost of constructing line extensions to serve new customers. Since the basis of collecting such fees is the cost of plant incurred to serve new customers, it logically and consistently follows that the revenue requirement savings resulting from collection of the fees should be spread over the useful life that generated the fees – which is exactly what occurs under the CIAC approach.

Second, also as previously noted, the amount of Schedule 3 fees to be collected can be expected to be quite volatile. One need look no further than APS' estimate of Schedule 3 fees anticipated to be collected for years 2008 – 2010 to observe such volatility. Such volatility in revenues will, in turn, result in volatility of earnings as well as probable controversy in future rate cases when attempting to estimate an "ongoing" or "normalized" level of Schedule 3 revenues to include in cost of service development. Concerns of volatility are eliminated when the CIAC approach is employed. Very simply, Schedule 3 fees will be collected concurrently and in direct proportion with expenditures for distribution line extensions, resulting in lower net investment by APS for new customers being added. The reduction in net plant investment required to serve new customers should, in turn, contribute to less earnings attrition.

In summary, Staff believes that from a conceptual basis (i.e., what are the fees intended to accomplish) and a volatility perspective (i.e., in earnings and rate case issues), the CIAC approach is superior to the revenue approach.

VIII. IF APS' REVENUE APPROACH IS ADOPTED, APS SHOULD BE ORDERED TO EITHER 1) IMMEDIATELY REDUCE BASE RATES BY THE AMOUNT OF SCHEDULE 3 FEES EXPECTED TO BE COLLECTED, OR 2) DEFER FOR FUTURE CREDITING TO RATEPAYERS ANY SCHEDULE 3 FEES COLLECTED UP UNTIL APS' NEXT RETAIL RATE APPLICATION

For the reasons stated, Staff urges this Commission to order APS to record Schedule 3 fees as CIAC. However, should the Commission decide to order APS to record the Schedule 3 fees as revenues, it should concurrently either 1) order APS to defer all receipts for future crediting to retail ratepayers in APS' next retail rate case, or 2) order APS to reduce non-fuel base rates on an equal percentage basis in and among rate classes by the amount of fees expected to be annually collected as a result of the Schedule 3 change.

Turning first to the alternative of reducing rates immediately, Staff believes that reducing non-fuel base rates on an equal percentage basis in and among rate classes would be an expedient and fair way to spread the rate reduction. This methodology has previously been implemented absent a revised detailed class cost of service study. Further, if the Company's financial forecasts are reasonably accurate, the rates stemming from this proceeding will likely be in effect for a relatively short period of time, resulting in no long-term or significant inequitable rate treatment for a given rate class.

The larger problem with implementing an immediate and corollary rate reduction is determining what "ongoing" or "normalized" level of Schedule 3 fees should be assumed to occur. As previously noted, APS predicts a fairly wide range of Schedule 3 fees to be collected over the ensuing three years. Given the lack of historical data, and time and resource restrictions necessary to evaluate this issue, if base rates are to be concurrently reduced for expected Schedule 3 receipts, Staff would propose reducing rates by a simple three-year average of the APS-projected Schedule 3 revenues.

Staff's other alternative to simply have APS defer Schedule 3 revenues received eliminates the concerns of 1) the equitable way to distribute the rate reduction, and 2) immediately determining the appropriate "ongoing" or "normalized" amount of Schedule 3 fees by which base rates should be immediately reduced. Further, while the deferral of Schedule 3 fees will not improve APS' earnings over the short term, it will nonetheless temporarily improve cash flow to the Company. In light of the noted benefits, Staff recommends deferral of Schedule 3 revenues over the immediate base rate reduction alternative *if this Commission were inclined to accept APS' proposal to record the Schedule 3 fees as "revenues."*

In support of its proposal to have APS defer the Schedule 3 fees for future crediting to ratepayers, Staff notes that such procedure is appropriate for a number of reasons. First, clearly such receipts are a new-found source of significant revenues that were not considered within the development of APS' jurisdictional cost of service. Further, deferring the significant unanticipated Schedule 3 revenues would be symmetrical with the treatment afforded APS regarding significant cost items that the Company was allowed to defer because no estimate for such costs had been included in a prior case jurisdictional cost of service. For instance, in Docket No. E-01345A-03-0437, APS was allowed to defer for future recovery costs that it was expecting to incur for clearing lines related to bark beetle infestation. In fact, the "costs" predicted to be incurred for bark beetle remediation in Docket No. E-01345A-03-0437 were considerably less than the "revenues" that are expected to be received as a result of the Schedule 3 tariff revision. If this Commission is to endorse deferral of significant "costs" not yet considered within base rate cost of service development, then similarly it should authorize deferral of significant new revenue streams that have not yet been considered within retail cost of service development.

Staff also submits that the net present value of revenue requirement streams under the revenue and CIAC approaches will only yield approximately equal results if ratepayers are credited in some fashion for the incremental revenues received in the early years following implementation of the Schedule 3 revision. In other words, the CIAC approach will undoubtedly result in a lower net present value revenue requirement stream if retail ratepayers are permanently barred under the revenue approach from benefiting from the early stream of revenues being collected pursuant to the Schedule 3 revisions.

Finally, APS has argued that the revenue approach is better for customers. As previously noted, Staff believes that APS' penchant to have the Schedule 3 fees immediately recorded as revenues, without a concurrent and offsetting reduction in base rates, may be influenced by its desire to effectively achieve an "attrition allowance" – a proposal which was rejected within Decision No. 69633. Staff submits that if APS were to agree to defer Schedule 3 revenues for the period of time until an "ongoing" level of such revenues can be incorporated within APS' *next* rate filing, that the Staff as well as this Commission could sooner be convinced of APS' conviction that the revenue approach is truly the preferred approach for ratepayers that is not being influenced by a \$50 to \$150 million "carrot" existing in the form of new-found Schedule 3 revenues not yet considered in the ratemaking formula.

Analysis of Revenue Requirement Impact - CIAC versus Cost Free Capital

Balance Sheet Prior to Receipt of Incremental Schedule 3 Fees

	Amount		Amount
Retail Jurisdictional Plant in Service	900	Common Equity	600
FERC Jurisdictional Plant in Service	100	Long Term Debt	600
Construction Work in Progress	100		
Unregulated Investment or Items Not Typically Allowed in Rate Base	100		
Total APS Assets	1,200		1,200

Assume APS' Common Equity and Debt Cost as Follows:

Component	Amount	% of Capital	Cost Rate	Weighted Cost	Revenue Converstion Factor @ 40'% FIT/ SIT Tax Rate	Before-Tax COC
Equity	600	50%	10.0%	5.0%	1.667	8.34%
LT Debt	600	50%	7.0%	3.5%		3.5%
Total	1200	100%		8.5%		11.8%

Before Tax Return on Rate Base Requirement - Prior to Receipt of Incremental Schedule 3 Fees:

Retail Jurisdictional Plant in Service	900
Before Tax Weighted Cost of Capital	11.8%
Return Requirement - Prior to Schedule 3	106.56

Analysis of Revenue Requirement Impact - CIAC versus Cost Free Capital

Balance Sheet After Receipt of Incremental Schedule 3 Fees
Fees Recorded as CIAC/Reduction to Retail Jurisdictional Plant in Service

	Amount		Amount
Retail Jurisdictional Plant in Service	800	Common Equity	570
FERC Jurisdictional Plant in Service	100	Long Term Debt	570
Construction Work in Progress	100		
CIAC Accum Def Tax = 100% Retail	40		
Unregulated Investment or Items Not Typically Allowed in Rate Base	100		
Total APS Assets	1,140	Total	1,140

Assume $100 of Schedule 3 Fees Received in Year One - Recorded as CIAC/Reduction to Retail Jurisdictional Plant in Service With Partially Off-Setting Negative Accumulated Deferred Income Tax Balance Which is Reflected as a Rate Base "Add"

Reduction to Retail Jurisdictional Plant in Service	(100)
Related Negative Accum. Deferred Income Taxes	40
Net Reduction in Retail Jurisdictional Rate Base	(60)
Retail Jurisdictional Rate Base - Schedule 3 Fees Recorded as CIAC/Reduction to Plant in Service	840
Before Tax Cost of Capital (Remains the Same As First Year Under CIAC Approach)	11.8%
Return Requirement When $100 of Schedule 3 Fees Recorded As CIAC/Reduction to Plant in Service	99.46

While not quantified herein, there would also be additional revenue requirement savings in the form of reduced depreciation expense and property tax expense as a result of plant in service being reduced by $100 under the CIAC approach.

Analysis of Revenue Requirement Impact - CIAC versus Cost Free Capital

Balance Sheet After Receipt of Incremental Schedule 3 Fees
Fees Recorded as Cost Free Capital

Retail Jurisdictional Plant in Service	900	Common Equity	570
FERC Jurisdictional Plant in Service	100	Long Term Debt	570
Construction Work in Progress	100	Sch. 3 Cost Free Capital Account	100
CIAC Accum Def Tax = 100% Retail	40		
Unregulated Investment or Items Not Typically Allowed in Rate Base	100		
Total APS Assets	1,240		1,240

Assume APS' Common Equity and Debt Cost as Follows:

Component	Amount	% of Capital	Cost Rate	Weighted Cost	Revenue Conversion Factor @ 40% FIT/ SIT Tax Rate	Before-Tax COC
Equity	570	45.97%	10.0%	4.6%	1.667	7.66%
LT Debt	570	45.97%	7.0%	3.2%		3.2%
Sch. 3 Cost Free Capital Account	100	8.06%	0.0%	0.0%		0.0%
Total	1,240	100.00%		7.8%		10.9%

Before Tax Return on Rate Base Requirement When Schedule 3 Fees Treated as Cost Free Capital

Retail Jurisdictional Plant in Service	900
CIAC - Accum Def. Income Taxes	40
APS Retail Jurisdictional Rate Base	940
Before Tax Weighted Cost of Capital	10.9%
Return Requirement - Cost Free Capital	102.23

Conclusion: Reflecting the *Schedule 3 receipts* as "Cost Free Capital" results in a higher revenue requirement than reflecting such receipts as CIAC/reduction to plant in service. The higher retail revenue requirement under the "Cost Free Capital" methodology occurs as a result of the fact that savings in the form of cost free capital are diluted as the "total company" capital structure supports investments other than retail rate base. In effect, the revenue requirement savings resulting from the retail-ratepayer-supplied "Cost Free Capital" are indirectly allocated to supporting the wholesale rate base, CWIP (which typically earns an AFUDC return) and any disallowed retail rate base investment, or unregulated investments on APS' balance sheet. It is noted that the CIAC approach results in savings to retail ratepayers over the "Cost Free Capital" approach even before considering additional savings in the form of reduced depreciation and property tax expense that have not been quantified or reflected with these analyses.

Schedule #3 Fees Treated as CIAC

For 1 Vintage Year Over a 30-Year Book Life

Line			Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
	Construction Additions & New Rate Base																		
1	Plant Additions		10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Less Schedule #3 Fees Treated as CIAC		(1,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Net Plant Additions After CIAC		9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Cumulative Plant Additions		9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
5	Accumulated Book Depreciation		-	(300)	(600)	(900)	(1,200)	(1,500)	(1,800)	(2,100)	(2,400)	(2,700)	(3,000)	(3,300)	(3,600)	(3,900)	(4,200)	(4,500)	(4,800)
6	Original Cost Less Accum. Book Depr.		9,000	8,700	8,400	8,100	7,800	7,500	7,200	6,900	6,600	6,300	6,000	5,700	5,400	5,100	4,800	4,500	4,200
7	20 Year Macrs Tax Depr Rate			0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
8	30 Year Book Depr. Rate			3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%
9	Accum. Book Depr. Rate vs. Tax Depr. Rate			3.33%	6.67%	10.00%	13.33%	16.67%	20.00%	23.33%	26.67%	30.00%	33.33%	36.67%	40.00%	43.33%	46.67%	50.00%	53.33%
10	Beginning Bal. of Def. Tax on CIAC		400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400
11	Accum. Def. Tax Reversal on CIAC		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Accum. Def. Tax on 9,000 Plant Addition		-	120	240	360	480	600	720	840	960	1,080	1,200	1,320	1,440	1,560	1,680	1,800	1,920
13	Deferred Tax Balance @ 40% Tax Rate		400	520	640	760	880	1,000	1,120	1,240	1,360	1,480	1,600	1,720	1,840	1,960	2,080	2,200	2,320
14	End of Year Rate Base		8,400	9,220	9,040	8,860	8,680	8,500	8,320	8,140	7,960	7,780	7,600	7,420	7,240	7,060	6,880	6,700	6,520
15	Revenue Requirements on New Rate Base																		
16	12.07% Return (incl. Taxes) on Beg. Rate Base		-	1,136	1,113	1,091	1,069	1,046	1,026	1,004	982	961	939	917	896	874	852	830	808
17	Annual Book Depr. (30 Year Life)		-	300	300	300	300	300	300	300	300	300	300	300	300	300	300	300	300
18	Property Taxes @ 1.5% on OCLD		-	131	126	122	117	113	108	104	99	95	90	86	81	77	72	68	63
19	New Rev Requirements	A	-	1,566	1,539	1,513	1,486	1,461	1,434	1,408	1,381	1,356	1,329	1,303	1,277	1,251	1,224	1,198	1,172
20	Discount Rate		12.07%																
21	Years		-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
22	Discount Factor		1.00	0.89	0.80	0.71	0.63	0.57	0.50	0.45	0.40	0.36	0.32	0.29	0.25	0.23	0.20	0.18	0.16
23	NPV of Yearly Revenue Requirements		-	1,397	1,225	1,075	942	826	724	634	555	486	425	372	325	284	248	217	189
24	NPV of 30 Years of Rev. Req. (12.07% disc't rate)	B	11,017																

Schedule #3 Fees Treated as Revenue

For 1 Vintage Year Over a 30-Year Book Life

Line			Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
25	Schedule #3 Fees Treated as Revenue																		
26	For 1 Vintage Year Over a 30-Year Book Life																		
27	Construction Additions & New Rate Base																		
28	Plant Additions		10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	No Adjustment for Schedule #3 Fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Net Plant Additions		10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	Cumulative Plant Additions		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
32	Accumulated Book Depreciation		-	(333)	(666)	(999)	(1,332)	(1,665)	(1,998)	(2,331)	(2,664)	(2,997)	(3,330)	(3,663)	(3,996)	(4,329)	(4,662)	(4,995)	(5,328)
33	Original Cost Less Accum Book Depr.		10,000	9,667	9,334	9,001	8,668	8,335	8,002	7,669	7,336	7,003	6,670	6,337	6,004	5,671	5,338	5,005	4,672
34	20 Year Macrs			0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
35	30 Year S/L Book Life			3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%
36	Cum. Delta			3.33%	6.67%	10.00%	13.33%	16.67%	20.00%	23.33%	26.67%	30.00%	33.33%	36.67%	40.00%	43.33%	46.67%	50.00%	53.33%
37	Def Tax - Taxable Inc. Yr One		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
38	Def Taxes on Tax Depr Deduction		-	133	267	400	533	667	800	933	1,067	1,200	1,333	1,467	1,600	1,733	1,867	2,000	2,133
39	Accum. Def. Tax on 10,000 Plant Addition		-	133	267	400	533	667	800	933	1,067	1,200	1,333	1,467	1,600	1,733	1,867	2,000	2,133
40	End of Year Rate Base		10,000	9,800	9,601	9,401	9,201	9,002	8,802	8,602	8,403	8,203	8,003	7,804	7,604	7,404	7,205	7,005	6,805
41	Revenue Requirements on New Rate Base																		
42	12.07% Return (incl. Taxes) on Beg. Rate Base		-	1,207	1,183	1,159	1,135	1,111	1,087	1,062	1,038	1,014	990	966	942	918	894	870	846
43	Annual Book Depr (30 Year Life)		-	333	333	333	333	333	333	333	333	333	333	333	333	333	333	333	333
44	Property Taxes @ 1.5% on OCLD		-	145	140	135	130	125	120	115	110	105	100	95	90	85	80	75	70
45	New Rev Requirements Before Sch #3		-	1,685	1,656	1,627	1,598	1,569	1,540	1,510	1,481	1,452	1,423	1,394	1,365	1,336	1,307	1,278	1,249
46	Schedule 3 Fee Revenue		-	(1,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
47	New Rev. Requirements	C	-	688	1,656	1,627	1,598	1,569	1,540	1,510	1,481	1,452	1,423	1,394	1,365	1,336	1,307	1,278	1,249
48	Discount Rate		12.07%																
49	Years		-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
50	Discount Factor		1.00	0.89	0.80	0.71	0.63	0.57	0.50	0.45	0.40	0.36	0.32	0.29	0.26	0.23	0.20	0.18	0.16
51	NPV of Yearly Revenue Requirements		-	611	1,319	1,156	1,013	888	777	680	595	521	456	398	348	304	265	231	202
52	NPV of 30 Years of Rev. Req. (12.07% disc't rate)	D	10,917																
53	Revenue vs. CIAC Treatment		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
54	Change in New Rev. Req. Needed	E = C - A	-	(881)	117	114	112	108	106	102	100	96	94	91	88	85	83	80	77
54	Cum. Change in New Rev. Req. Needed	Sum E	-	(881)	(764)	(650)	(538)	(430)	(324)	(222)	(122)	(26)	68	159	247	332	415	495	572
56	[redacted]																		
57	[redacted]																		

Line	Schedule #3 Fees Treated as CIAC / For 1 Vintage Year Over a 30-Year Book Life / Construction Additions & New Rate Base		Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	30 Year Totals
1	Plant Additions		-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,000
2	Less Schedule #3 Fees Treated as CIAC		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,000)
3	Net Plant Additions After CIAC		-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,000
4	Cumulative Plant Additions		9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	
5	Accumulated Book Depreciation		(5,100)	(5,400)	(5,700)	(6,000)	(6,300)	(6,600)	(6,900)	(7,200)	(7,500)	(7,800)	(8,100)	(8,400)	(8,700)	(9,000)	
6	Original Cost Less Accum. Book Depr.		3,900	3,600	3,300	3,000	2,700	2,400	2,100	1,800	1,500	1,200	900	600	300	-	
7	20 Year Macrs Tax Depr. Rate		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0%
8	30 Year Book Depr Rate		3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	100%
9	Accum. Book Depr. Rate vs. Tax Depr. Rate		56.67%	60.00%	63.33%	66.67%	70.00%	73.33%	76.67%	80.00%	83.33%	86.67%	90.00%	93.33%	96.67%	100.00%	
10	Beginning Bal of Def. Tax on CIAC		400	400	400	400	400	400	400	400	400	400	400	400	400	400	
11	Accum. Def. Tax Reversal on CIAC		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
12	Accum. Def. Tax on 9,000 Plant Addition		2,040	2,160	2,280	2,400	2,520	2,640	2,760	2,880	3,000	3,120	3,240	3,360	3,480	3,600	
13	Deferred Tax Balance @ 40% Tax Rate		2,440	2,560	2,680	2,800	2,920	3,040	3,160	3,280	3,400	3,520	3,640	3,760	3,880	4,000	
14	End of Year Rate Base		6,340	6,160	5,980	5,800	5,620	5,440	5,260	5,080	4,900	4,720	4,540	4,360	4,180	4,000	207,700
15	Revenue Requirements on New Rate Base																
16	12.07% Return (Incl. Taxes) on Beg. Rate Base		787	765	744	722	700	678	657	635	613	591	570	548	526	505	24,587
17	Annual Book Depr. (30 Year Life)		300	300	300	300	300	300	300	300	300	300	300	300	300	300	9,000
18	Property Taxes @ 1.5% on OCLD		59	54	50	45	41	36	32	27	23	18	14	9	5	-	1,965
19	New Rev. Requirements	A	1,146	1,119	1,094	1,067	1,041	1,014	989	962	936	909	884	857	831	805	35,552
20	Discount Rate																
21	Years		17	18	19	20	21	22	23	24	25	26	27	28	29	30	
22	Discount Factor		0.14	0.13	0.11	0.10	0.09	0.08	0.07	0.06	0.06	0.05	0.05	0.04	0.04	0.03	
23	NPV of Yearly Revenue Requirements		165	144	126	108	96	83	72	62	54	47	41	35	31	26	11,017
24	NPV of 30 Years of Rev. Req. (12.07% disc't rate)	B															
25	Schedule #3 Fees Treated as Revenue																
26	For 1 Vintage Year Over a 30-Year Book Life																30 Year
27	Construction Additions & New Rate Base		Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Totals
28	Plant Additions		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	No Adjustment for Schedule #3 Fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Net Plant Additions		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	Cumulative Plant Additions		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
32	Accumulated Book Depreciation		(5,661)	(5,994)	(6,327)	(6,660)	(6,994)	(7,328)	(7,662)	(7,996)	(8,330)	(8,664)	(8,998)	(9,332)	(9,666)	(10,000)	
33	Original Cost Less Accum. Book Depr.		4,339	4,006	3,673	3,340	3,006	2,672	2,338	2,004	1,670	1,336	1,002	668	334	-	
34	20 Year Macrs		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0%
35	30 Year S/L Book Life		3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	100%
36	Cum. Delta		56.67%	60.00%	63.33%	66.67%	70.00%	73.33%	76.67%	80.00%	83.33%	86.67%	90.00%	93.33%	96.67%	100.00%	
37	Def Tax - Taxable Inc Yr One		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
38	Def Taxes on Tax Depr Deduction		2,267	2,400	2,533	2,667	2,800	2,933	3,067	3,200	3,333	3,467	3,600	3,733	3,867	4,000	
39	Accum. Def Tax on 10,000 Plant Addition		2,267	2,400	2,533	2,667	2,800	2,933	3,067	3,200	3,333	3,467	3,600	3,733	3,867	4,000	
40	End of Year Rate Base		6,606	6,406	6,206	6,007	5,806	5,605	5,405	5,204	5,003	4,803	4,602	4,401	4,201	4,000	217,100
41	Revenue Requirements on New Rate Base																
42	12.07% Return (Incl. Taxes) on Beg. Rate Base		821	797	773	749	725	701	677	652	628	604	580	555	531	507	26,722
43	Annual Book Depr. (30 Year Life)		333	333	333	333	334	334	334	334	334	334	334	334	334	334	10,000
44	Property Taxes @ 1.5% on OCLD		65	60	55	50	45	40	35	30	25	20	15	10	5	-	2,175
45	New Rev. Requirements Before Sch. #3		1,219	1,190	1,161	1,132	1,104	1,075	1,046	1,016	987	958	929	899	870	841	37,897
46	Schedule 3 Fee Revenue		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,000)
47	New Rev. Requirements	C	1,219	1,190	1,161	1,132	1,104	1,075	1,046	1,016	987	958	929	899	870	841	36,897
48	Discount Rate																
49	Years		17	18	19	20	21	22	23	24	25	26	27	28	29	30	
50	Discount Factor		0.14	0.13	0.11	0.10	0.09	0.08	0.07	0.06	0.06	0.05	0.05	0.04	0.04	0.03	
51	NPV of Yearly Revenue Requirements		176	153	133	116	101	86	76	66	57	50	43	37	32	26	10,917
52	NPV of 30 Years of Rev. Req. (12.07% disc't rate)	D															
53	Revenue vs. CIAC Treatment		Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Totals
54	Change in New Rev. Req. Needed	E = C - A	73	71	67	65	63	61	57	54	51	49	45	42	39	36	[illegible]
54	Cum. Change in New Rev. Req. Needed	Sum E	646	718	783	848	911	972	1,029	1,083	1,134	1,183	1,228	1,270	1,309	1,345	
56	[redacted]																
57	[redacted]																

Schedule 3 Treatment CIAC vs. Revenue

Line			Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
	Schedule #3 Fees Treated as CIAC																		
	For 1 Vintage Year Over a 30-Year Book Life																		
	Construction Additions & New Rate Base		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
1	Plant Additions		10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Less Schedule #3 Fees Treated as CIAC		(1,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Net Plant Additions After CIAC		9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Cumulative Plant Additions		9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
5	Accumulated Book Depreciation		-	(300)	(600)	(900)	(1,200)	(1,500)	(1,800)	(2,100)	(2,400)	(2,700)	(3,000)	(3,300)	(3,600)	(3,900)	(4,200)	(4,500)	(4,800)
6	Original Cost Less Accum Book Depr.		9,000	8,700	8,400	8,100	7,800	7,500	7,200	6,900	6,600	6,300	6,000	5,700	5,400	5,100	4,800	4,500	4,200
7	20 Year Macrs Tax Depr. Rate			0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
8	30 Year Book Depr Rate			3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%
9	Accum. Book Depr. Rate vs. Tax Depr Rate			3.33%	6.67%	10.00%	13.33%	16.67%	20.00%	23.33%	26.67%	30.00%	33.33%	36.67%	40.00%	43.33%	46.67%	50.00%	53.33%
10	Beginning Bal of Def. Tax on CIAC		400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400
11	Accum Def. Tax Reversal on CIAC		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Accum. Def. Tax on 9,000 Plant Addition		-	120	240	360	480	600	720	840	960	1,080	1,200	1,320	1,440	1,560	1,680	1,800	1,920
13	Deferred Tax Balance @ 40% Tax Rate		400	520	640	760	880	1,000	1,120	1,240	1,360	1,480	1,600	1,720	1,840	1,960	2,080	2,200	2,320
14	End of Year Rate Base		9,400	9,220	9,040	8,860	8,680	8,500	8,320	8,140	7,960	7,780	7,600	7,420	7,240	7,060	6,880	6,700	6,520
15	Revenue Requirements on New Rate Base																		
16	12.07% Return (incl. Taxes) on Beg. Rate Base		-	1,135	1,113	1,091	1,069	1,048	1,026	1,004	982	961	939	917	896	874	852	830	809
17	Annual Book Depr. (30 Year Life)		-	300	300	300	300	300	300	300	300	300	300	300	300	300	300	300	300
18	Property Taxes @ 1.5% on OCLD		-	131	126	122	117	113	108	104	99	95	90	86	81	77	72	68	63
19	New Rev. Requirements	A	-	1,566	1,539	1,513	1,486	1,461	1,434	1,408	1,381	1,356	1,329	1,303	1,277	1,251	1,224	1,198	1,172
20	Discount Rate		12.07%																
21	Years		-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
22	Discount Factor		1.00	0.89	0.80	0.71	0.63	0.57	0.50	0.45	0.40	0.36	0.32	0.29	0.25	0.23	0.20	0.18	0.16
23	NPV of Yearly Revenue Requirements		-	1,397	1,226	1,075	942	826	724	634	555	486	425	372	325	284	248	217	189
24	NPV of 30 Years of Rev. Req. (12.07% disc't rate)	B	11,017																
25	**Schedule #3 Fees Treated as Revenue**																		
26	**For 1 Vintage Year Over a 30-Year Book Life**																		
27	Construction Additions & New Rate Base		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
28	Plant Additions		10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	No Adjustment for Schedule #3 Fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Net Plant Additions		10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	Cumulative Plant Additions		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
32	Accumulated Book Depreciation		-	(333)	(666)	(999)	(1,332)	(1,665)	(1,998)	(2,331)	(2,664)	(2,997)	(3,330)	(3,663)	(3,996)	(4,329)	(4,662)	(4,995)	(5,328)
33	Original Cost Less Accum Book Depr.		10,000	9,667	9,334	9,001	8,668	8,335	8,002	7,669	7,336	7,003	6,670	6,337	6,004	5,671	5,338	5,005	4,672
34	20 Year Macrs			0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
35	30 Year S/L Book Life			3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%
36	Cum. Delta			3.33%	6.67%	10.00%	13.33%	16.67%	20.00%	23.33%	26.67%	30.00%	33.33%	36.67%	40.00%	43.33%	46.67%	50.00%	53.33%
37	Def. Tax - Taxable Inc. Yr One		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
38	Def. Taxes on Tax Depr Deduction		-	133	267	400	533	667	800	933	1,067	1,200	1,333	1,467	1,600	1,733	1,867	2,000	2,133
39	Accum. Def Tax on 10,000 Plant Addition		-	133	267	400	533	667	800	933	1,067	1,200	1,333	1,467	1,600	1,733	1,867	2,000	2,133
40	End of Year Rate Base		10,000	9,800	9,601	9,401	9,201	9,002	8,802	8,602	8,403	8,203	8,003	7,804	7,604	7,404	7,205	7,005	6,805
41	Revenue Requirements on New Rate Base																		
42	12.07% Return (incl. Taxes) on Beg. Rate Base		-	1,207	1,183	1,159	1,135	1,111	1,087	1,062	1,038	1,014	990	966	942	918	894	870	846
43	Annual Book Depr. (30 Year Life)		-	333	333	333	333	333	333	333	333	333	333	333	333	333	333	333	333
44	Property Taxes @ 1.5% on OCLD		-	145	140	135	130	125	120	115	110	105	100	95	90	85	80	75	70
45	New Rev. Requirements Before Sch. #3		-	1,685	1,656	1,627	1,598	1,569	1,540	1,510	1,481	1,452	1,423	1,394	1,365	1,336	1,307	1,278	1,249
46	Schedule 3 Fee Revenue		-	(1,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
47	New Rev. Requirements	C	-	685	1,656	1,627	1,598	1,569	1,540	1,510	1,481	1,452	1,423	1,394	1,365	1,336	1,307	1,278	1,249
48	Discount Rate		12.07%																
49	Years		-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
50	Discount Factor		1.00	0.89	0.80	0.71	0.63	0.57	0.50	0.45	0.40	0.36	0.32	0.29	0.25	0.23	0.20	0.18	0.16
51	NPV of Yearly Revenue Requirements		-	611	1,319	1,158	1,013	888	777	680	595	521	455	398	348	304	266	231	202
52	NPV of 30 Years of Rev. Req. (12.07% disc't rate)	D	10,917																
53	Revenue vs. CIAC Treatment		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
54	Change in New Rev. Req. Needed	E = C - A	-	(881)	117	114	112	108	106	102	100	96	94	91	88	85	83	80	77
55	Cum. Change in New Rev. Req. Needed	Sum E	-	(881)	(764)	(650)	(538)	(430)	(324)	(222)	(122)	(26)	68	159	247	332	415	495	572
56	[redacted]																		
57																			

Schedule #3 Fee Treatment CIAC vs. Revenue

Backup to APS 12/10/07 Letter, Exhibit C

Line	Schedule #3 Fees Treated as CIAC For 1 Vintage Year Over a 30-Year Book Life Construction Additions & New Rate Base		Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	30 Year Totals
1	Plant Additions		-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,000
2	Less Schedule #3 Fees Treated as CIAC		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,000)
3	Net Plant Additions After CIAC		-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,000
4	Cumulative Plant Additions		9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	
5	Accumulated Book Depreciation		(5,100)	(5,400)	(5,700)	(6,000)	(6,300)	(6,600)	(6,900)	(7,200)	(7,500)	(7,800)	(8,100)	(8,400)	(8,700)	(9,000)	
6	Original Cost Less Accum. Book Depr.		3,900	3,600	3,300	3,000	2,700	2,400	2,100	1,800	1,500	1,200	900	600	300	-	
7	20 Year Macrs Tax Depr. Rate		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0%
8	30 Year Book Depr. Rate		3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	100%
9	Accum. Book Depr. Rate vs. Tax Depr. Rate		56.67%	60.00%	63.33%	66.67%	70.00%	73.33%	76.67%	80.00%	83.33%	86.67%	90.00%	93.33%	96.67%	100.00%	
10	Beginning Bal. of Def. Tax on CIAC		400	400	400	400	400	400	400	400	400	400	400	400	400	400	
11	Accum. Def. Tax Reversal on CIAC		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
12	Accum. Def. Tax on 9,000 Plant Addition		2,040	2,160	2,280	2,400	2,520	2,640	2,760	2,880	3,000	3,120	3,240	3,360	3,480	3,600	
13	Deferred Tax Balance @ 40% Tax Rate		2,440	2,560	2,680	2,800	2,920	3,040	3,160	3,280	3,400	3,520	3,640	3,760	3,880	4,000	
14	End of Year Rate Base		6,340	6,160	5,980	5,800	5,620	5,440	5,260	5,080	4,900	4,720	4,540	4,360	4,180	4,000	207,700
15	Revenue Requirements on New Rate Base																
16	12.07% Return (incl. Taxes) on Beg. Rate Base		787	765	744	722	700	678	657	635	613	591	570	548	526	505	24,567
17	Annual Book Depr. (30 Year Life)		300	300	300	300	300	300	300	300	300	300	300	300	300	300	9,000
18	Property Taxes @ 1.5% on OCLD		59	54	50	45	41	36	32	27	23	18	14	9	5	-	1,965
19	New Rev. Requirements	A	1,146	1,119	1,094	1,067	1,041	1,014	989	962	936	909	884	857	831	805	35,552
20	Discount Rate																
21	Years		17	18	19	20	21	22	23	24	25	26	27	28	29	30	
22	Discount Factor		0.14	0.13	0.11	0.10	0.09	0.08	0.07	0.06	0.06	0.05	0.05	0.04	0.04	0.03	
23	NPV of Yearly Revenue Requirements		165	144	126	109	95	83	72	62	54	47	41	35	31	26	11,017
24	NPV of 30 Years of Rev. Req. (12.07% disc't rate)	B															
25	Schedule #3 Fees Treated as Revenue																
26	For 1 Vintage Year Over a 30-Year Book Life																30 Year
27	Construction Additions & New Rate Base		Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Totals
28	Plant Additions		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	No Adjustment for Schedule #3 Fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Net Plant Additions		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	Cumulative Plant Additions		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
32	Accumulated Book Depreciation		(5,661)	(5,994)	(6,327)	(6,660)	(6,994)	(7,328)	(7,662)	(7,996)	(8,330)	(8,664)	(8,998)	(9,332)	(9,666)	(10,000)	
33	Original Cost Less Accum. Book Depr		4,339	4,006	3,673	3,340	3,006	2,672	2,338	2,004	1,670	1,336	1,002	668	334	-	
34	20 Year Macrs		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0%
35	30 Year S/L Book Life		3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	3.33%	100%
36	Cum. Delta		56.67%	60.00%	63.33%	66.67%	70.00%	73.33%	76.67%	80.00%	83.33%	86.67%	90.00%	93.33%	96.67%	100.00%	
37	Def. Tax - Taxable Inc. Yr One		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
38	Def. Taxes on Tax Depr Deduction		2,267	2,400	2,533	2,667	2,800	2,933	3,067	3,200	3,333	3,467	3,600	3,733	3,867	4,000	
39	Accum. Def. Tax on 10,000 Plant Addition		2,267	2,400	2,533	2,667	2,800	2,933	3,067	3,200	3,333	3,467	3,600	3,733	3,867	4,000	
40	End of Year Rate Base		6,606	6,406	6,206	6,007	5,806	5,605	5,405	5,204	5,003	4,803	4,602	4,401	4,201	4,000	217,100
41	Revenue Requirements on New Rate Base																
42	12.07% Return (incl. Taxes) on Beg. Rate Base		821	797	773	749	725	701	677	652	628	604	580	556	531	507	25,722
43	Annual Book Depr. (30 Year Life)		333	333	333	333	334	334	334	334	334	334	334	334	334	334	10,000
44	Property Taxes @ 1.5% on OCLD		65	60	55	50	45	40	35	30	25	20	15	10	5	-	2,175
45	New Rev. Requirements Before Sch. #3		1,219	1,190	1,161	1,132	1,104	1,075	1,046	1,016	987	958	928	899	870	841	37,897
46	Schedule 3 Fee Revenue		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,000)
47	New Rev. Requirements	C	1,219	1,190	1,181	1,132	1,104	1,075	1,046	1,016	987	958	928	899	870	841	36,897
48	Discount Rate																
49	Years		17	18	19	20	21	22	23	24	25	26	27	28	29	30	
50	Discount Factor		0.14	0.13	0.11	0.10	0.09	0.08	0.07	0.06	0.06	0.05	0.05	0.04	0.04	0.03	
51	NPV of Yearly Revenue Requirements		176	153	133	116	101	88	76	66	57	50	43	37	32	26	10,917
52	NPV of 30 Years of Rev. Req. (12.07% disc't rate)	D															
53	Revenue vs. CIAC Treatment		Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Totals
54	Change in New Rev. Req. Needed	E = C - A	73	71	67	65	63	61	57	54	51	49	46	42	39	36	[illegible]
54	Cum. Change in New Rev. Req. Needed	Sum E	645	716	783	848	911	972	1,029	1,083	1,134	1,183	1,229	1,270	1,309	1,345	
56	[illegible]																
57	[illegible]																

APS Schedule 3 – Line Extension

	Date	ACC Complaint Number	Type	NATURE OF COMPLAINT	APS RESPONSE	RESOLUTION	Date Closed
1	2/13/08	2008-66467	L	Customer building new home - applied for service. APS quoted $40,000 **Cost breakdown requested**	Customer is ¼ to 1/2 mile from nearest power. APS provided $40,000 **verbal** estimate for Line Extension. **No breakdown provided**	Closed per APS response. On 1/14/09 Customer contacted ACC stating APS is not working with him. Notes reflect ACC is contacting APS.	2/19/08
2	3/3/08	2008-66855	L	Customer property ½ mile from Hwy 92 in Bisbee. APS quoted $60,000 to extend service	Property is 3,000' from nearest power source. APS stands on $60,000 estimate	Customer not satisfied.	3/21/08
3	3/20/08	2008-67200	L	Customer attempted to obtain a quote several times. No success.	On 3/24 APS provided cost for underground - $15,850, overhead - $24,300 (???)	Closed per utility response to customer & Commission.	3/28/08
4	3/21/08	2008-67239	L	Customer quoted $550 for future development and $900 to extend service 15'. **Cost breakdown requested**	Advised $500 to extend to 100 amp panel single phase service at 120/140 volts & $850 to extend to 200 amp panel w/single phase at 120/240 volts	Customer not satisfied. **Breakdown provided**	3/31/08

L = Line Extensions **T = Transformer**

5	4/7/08	2008-67606	L	**MAYES REFERRAL** APS quoted customer $3,000 line extension fee **+ hook up fee**	Issue resolved prior to staff contacting customer –APS agreed to waive charges	APS agreed to waive charges to customer. **NO APS CONTACT**	4/7/08
6	4/23/08	2008-68135 ALSO SEE #18 71080	T	Customer working w/ APS since 9/07. APS now requiring customer pay for a transformer. Advised current transformer not large enough to support customer energy needs	Total cost of extension is $7,169 -$5000 credit = $2,169 (based on Schedule 3 effective 7-1-07	Per customer working with APS.	5/9/08
7	5/5/08	2008-68345	L	Customer questioned APS quote from one year ago to current quote - $50,000 difference. **Cost breakdown requested**	Extension requires $227,718 + tax refundable advance. Costs include materials - $285,290, (700 hrs. labor - $57,309 & street lights - $15,394	Closed per APS response. **Breakdown provided**	5/5/08
8	5/9/08	2008-68468	L	Customer disputing estimate to extend service. 1st estimate $19,000 to prospective buyer. 2nd estimate $15,000 to owner **Cost breakdown requested**	1st cost estimate $19,057.27 to extend to east side, 2nd estimate $25,693.74 to extend to west side of property. **No breakdown provided**	Customer can't afford. Customer can't proceed.	5/19/08

L = Line Extensions **T = Transformer**

9	6/13/08	2008-69264	L	Customer requested service to a hotel to be remodeled. Building has had service from APS in the past. Wiring is needed. APS charging $274,933.17 to provide service	Quoting $184,933.17 to extend service= LFC $107,378.17 ($84,725 materials & $22,653.17 labor) and $77,555 **SFC**	Pursuant to APS agreeing to discontinue collecting the SFC charge, cost to customer reduced to $107,378.17.	10/2/08
10	6/25/08	2008-69571	L	Customer requested exact amounts APS charges him for each pole, transformer, hour of labor, etc. **Cost breakdown requested**	Customer paid for two line extensions - one for new extension and one for upgrade. Breakdown for installation of new extension is: LFC charge $16,353 (materials $9,207 & labor $7,146) and **SFC** charge $5,117.00.	7/2 explanation letter from APS & 7-3 phone call from APS to customer. **Final outcome unknown**	7/3/08
11	6/30/08	2008-69687	L	Customer requested service in '07 to vacant lot. APS advised unable to provide temporary service, customer must be considered 'permanent'. APS has now quoted customer an estimate of $35,000 to extend service. **He built a house & barn**	Customer contacted APS in early 2007. APS advised of 1,000 free feet policy for permanent service. No application for service or site design received. Today APS is requiring $500 deposit & estimates line extension to be $35,000	Customer is 60 years old, battling terminal illness and is unable to pay cost now required. Customer is unhappy and questions any programs for financial assistance.	7/10/08
12	7/7/08	2008-69859	L	Customer is doctor in the process of building a medical office in Prescott Valley. He is appalled by quote of $46,074 to extend service. APS is unable to explain how charges were determined. **Requested cost breakdown SFC questioned**	Total charge to customer of $46,074, which includes a LFC charge of $22,457 (M&L) $14,649.00 materials & $7,808.00 labor + **SFC** charge of $23,617 based on voltage & Service Entrance Size (SES) to which service is provided. **Costs confidential**	APS met w/Commission staff, agreed to stop collecting **SFC** and refund the monies already collected from 2/27/08 to all customers. Customer line extension fee reduced to $22,457 **ACC reqd refund status of SFC**	9/10/08

L = Line Extensions **T = Transformer**

13	8/12/08	2008-70649	T	Customer is 2/3 completed with construction of home. APS now advised customer new transformer & pole is needed at cost $4,200	5/29/08 customer requested meter disconnect. 8/1/08 APS reconnected service to customer. 8/7/08 APS contacted builder to advise cost of job is $4,014.00.	APS will not charge customer to upgrade transformer since charge was not required before service was reestablished.	08/21/08
14	8/14/08	2008-70722	L	A 69 KV line is at the well site and a 12 KV line is 1.5 miles away from farm & well. He has a 2nd farm & well 5 miles away in ED8 svc area. APS quoting 180k for service. He is not sure which area he is in	**Not sent to APS**	Customer directed to contact Barb Wells with legal description to determine who is provider in the area (ED8 or APS).	8/14/08
15	8/14/08	2008-70718	T	Customer unable to obtain quote from APS for line extension. There is a pole on corner of property.	Customer charge is $4,230.94, $3,026.19 materials & $1,204.75 labor. Total cost includes installation of a new transformer.	12/15/08 Mediation held. Customer not satisfied wants to file a formal complaint. Customer disputes APS requirement of new transformer installation.	9/18/08
16	8/20/08	2008-70867 ALSO SEE #34 70867	L	Requested $17,500 to extend service 700'. (after design $16,800)	Customer charge is $16,718, $6,352.07 materials & $10,365.93 labor.	Staff discussed changes to APS tariff with customer. Customer not satisfied.	9/16/08

L = Line Extensions **T = Transformer**

17	8/29/08	2008-71111	L	Customer advised total cost to extend service would be $12,700.83. APS now states charge will double due to neighbor refusing utility easement	7/22/08 verbal estimate provided $12,048.83 for LFC and $652.00 for **SFC**. APS now estimates cost at $25,000 since neighbor refuses easement	Customer unable to move forward with extension.	9/8/08
18	8/29/08	2008-71080 ALSO SEE #6 68135	T	Two existing transformers at location. APS advised customer of an empty port on one transformer, unable to connect to it, incorrect type of power. Other transformer must be upgraded.	Customer entered into a line extension on 4/9/08. APS estimated cost at $18,531.54 to be served from closest transformer which requires upgrade. If cable needs to be replaced, customer responsible for up to $50,000	Customer decided to move forward with original line extension agreement.	10/16/08
19	8/29/08	2008-71098	L	At site visit APS quoted $500,000 to extend service	Nearest source of available power is 2.7 miles. Estimated cost to extend service $217,000 (48 poles, overhead primary wire & one transformer)	None	9/18/08
20	8/29/08	2008-71099	L	Customer building a 3400 sq ft house. Houses within approx 200 yards of his. Quoted $13,296 to extend service (two poles $6,000, transformer $3,500, anchors $3,000, meter system charge $652 & meter $144)	Provided explanation regarding Schedule 3 line extension tariff effective 2/27/08 approved by ACC.	None	9/9/08
21	9/3/08	2008-71182	L	Customer in process of building a business and shocked by APS estimated quote of $99,624.97 to extend service.	Quoted $75,126.65 non refundable (material $44,084.85 & labor $31,041.80). **SFC originally quoted**	After mediation, APS agreed to grandfather customer due to proof of contacting APS prior to Sched 3 changes. Charge reduced to $31,424	12/1/08
22	9/9/08	2008-71331	L	APS quoted customer a $25 per ft. to extend service 500' Customer was previously advised extension would be free.	Customer's home is 800' from nearest pole. Estimated cost to extend approx. $20,000.	Mediation performed, APS reaffirmed extension will be 400' and approx cost is $9,300.00.	10/21/08

L = Line Extensions **T = Transformer**

23	9/19/08	2008-71578		T	Customer building a new home. APS requiring customer replace existing transformer.	Current underground line and 25 KVA transformer will not accommodate customer needs. APS requiring customer upgrade transformer to a 75 KVA, total cost $4,759.13.	Customer does not agree and intends to pursue a formal complaint.	9/26/08
24	10/17/08	2008-72219		L	APS is quoting customer $4,500 to extend service. Customer questions the reason APS will not extend from existing line.	Customer will need to install a 25 KVA transformer and extend 120'. Total cost $4,473.32. (2545.48 materials & $2,018.84 labor).	Customer will explore alternative options to establish service.	10/28/08
25	10/22/08	2008-72296		T	Customer requested service to a lot owned by grandmother. Customer placing a mobile home on lot. APS advised customer she will need to upgrade the existing transformer.	APS had not determined if customer additional load would require an upgrade to the existing transformer. If an upgrade is required the cost would be approx. $2,500.	After APS obtained detailed information from customer, APS determined an upgrade to the existing transformer is not necessary.	12/23/08
26	11/24/08	2008-73318		T	Customer is 105' from existing transformer. APS is requiring customer pay for a new transformer.	APS requiring upgrade from current 10 KVA transformer to 50 KVA transformer. Total cost to customer is $5,060.94.	Customer contacted to confirm receipt of APS response.	12/2/08
27	12/4/08	2008-73654		T	**MAYES REFERRAL** Customer requested service from APS. Transformer sits on the edge of his lot. APS is requiring a change to the existing transformer, total cost $5,010.75.	APS currently has a 25 KVA transformer on site connected to a vacant home. APS is required to reserve potential load of vacant home. APS was concerned the current transformer would not support energy needs for 10 ton a/c.	Since customer decided to down size A/C to 4 ton, APS will not require customer upgrade the existing transformer.	
28	12/8/08	2008-73734		T	Customer questioning APS authority to require she upgrade existing transformer. APS is charging customer $3,700.00. **Cost breakdown requested**	There is a pole on east side of property & north of road approx 685'. APS will not use existing transformer as distance exceeds 200'. APS requiring customer pay for a new transformer. **Cost breakdown provided. Not for release to customer. Cost Confidential***	PENDING	

L = Line Extensions

T = Transformer

29	12/19/08	2008-74092	L	**<u>GLEASON REFERRAL</u>** Customer began construction in fall of 2007, when 1,000' included. APS requiring customer pay $18,000 to install service.	Per APS, customer requested service for two properties, one upgrade & one new service. Total charge for line extension is $9,918.22, remaining balance for trenching, boring or other earthwork.	APS response to customer explains ACC approval of changes to Schedule 3 – Line Extension tariff.	1/12/09
30	1/13/09	2009-74536	T	**<u>MAYES REFERRAL</u>** Customer requested service to a mobile home placed in her back yard for 80 year old father. APS required septic be installed first. APS is now charging $4,173.51 to extend service. **Cost breakdown requested**	Job consists of adding a 25 KVA transformer to existing pole & running 80' of overhead wire to pedestal. APS quote to customer is $4,173.51. If APS connected service from existing transformer, cost would increase due to distance. Neighbor's transformer would require upgrade.	PENDING	
31	1/21/09	2009-74760	T	APS is charging customer $6,400 to install a transformer for daughters 1300 sq ft home due to mandate from Commission. **Cost breakdown requested**	Quoted customer $6,332.00, which includes a 50 KVA transformer, 150' service wire, labor & design. After review job design by an APS engineer APS believes a 25 KVA transformer will meet customer needs. APS charge reduced to $5,232.00.	PENDING	
32	1/23/09	2009-74856	T	**<u>MAYES REFERRAL</u>** Customer requested service. Initially quoted $15,000. Poles are near customer property line. APS has reduced the price to $6,500. **Cost breakdown requested**	Customer is building a 3600 square foot home which has a 400 service entrance section (SES) and two air conditioners. APS currently has 11 homes being serviced from the 50 KVA transformer. The existing transformer does not have the available capacity to serve the anticipated load from Ms. Clute. The total cost is $14,000.00.	PENDING	

L = Line Extensions **T = Transformer**

33	2/4/09	2009-75301	T	**WING REFERRAL** Customer purchased a house, which has been served by APS in the past. Customer requested service. APS is charging $5,863 to install a transformer. Customer is confused and states that there are new poles and lines that run right along the property.	Customer contacted APS to re-establish service to his new home. APS did provide service to this home in the past, however APS removed all equipment as the home has not received service in 10 yrs. APS found the closest transformer to the property is 338' away. This is a 25 KVA transformer, which currently serves one customer and has capacity to add the customer anticipated load of 3KVA, although because the distance between the poles on the property are greater than 200' APS would need to set a new pole to serve him. The estimated cost is $7,408.12. As an alternative, APS determined that a new 25 KVA transformer could be installed on an existing pole located in front of the property and the total cost would be $5,863.00.	PENDING	
34	2/6/09	2009-75485 ALSO SEE #16 70867	L	**NEWMAN REFERRAL** Customer quoted $17,000 for power underground & about $500 less for power overhead. APS will not breakdown charges for customer. **Cost breakdown requested**	Customer charge is $16,718, $6,352.07 materials & $10,365.93 labor.	PENDING	

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35	2/10/09	2009-75592	L	Customer built when 1000' included. In 1/08, customer advised of Schedule 3 changes. Now quoted $20,000 to install service. Customer can't afford. Customer can't proceed. **Cost breakdown requested**	APS' cost to extend electric service to two properties is $9,918.22. APS will be installing a new 75KVA transformer to serve both homes and three homes in the future. The current two homes are approximately 2,600 square feet and have two 2.5-ton air conditioners. Both homes have a 200-amp service entrance section (SES). The nearest source of power is 878' feet from the proposed line extension.	PENDING	
36	2/10/09	2009-75633	L	Customer quoted $500 design fee in early 2007. Property is 600' from existing transformer. APS now requiring $3,500 design fee & $30,000 to extend service. **Cost breakdown requested**	APS provided customer a verbal quote of $25,000 to $35,000 as the job would include 4 poles, 4 anchors, a transformer, approximately 110 feet of service wire and approximately 1256 feet of primary wire. The job would also require signed easements from property owners in three other lots as APS will have to install poles and/or anchors on each of the other properties.	PENDING	
37	2/10/09	2009-75724	T	Customer required to upgrade existing pole & transformer **or** install new transformer. Charge will be between $8,000 - $11,000. Service lines have been in this area since 1960's. **Cost breakdown requested**	To serve customer, APS would need to install a new pole NW of customer's home. The pole would house the primary line and APS would place a transformer on the new pole that would solely serve him at this time. APS would then run an underground service line from the pole to his home. APS provided a verbal rough estimate of $8000.00. APS further explained that a design was needed in order to quote an actual figure.	PENDING	

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38	3/10/09	2009-77383	L	APS is charging $104,226.01 to upgrade service to the Carl T. Hayden V.A. Hospital Center. The total charge includes $27,345.98 for labor and $76,880.03 for materials. Customer is requesting an explanation of how APS arrived at the charge assessed for the materials, which include two 12.47 kv deadfront switch cabinets with box pads and 3573 ft primary circuit wire and labor. Per customer the line extension does not require additional square footage.	This project is not a "service upgrade. There is no new electric load associated with this service extension request. In fact, the VA Medical Center's monthly peak electric load has decreased significantly in the last 12 months. Therefore this job is being handled as a "non-revenue job". APS is revamping its existing facilities because the VA Hospital has changed its service requirements. The VA Hospital plans to redesign its electric configuration to contain a back up system in case of an internal electrical failure within their facility which requires APS redesign its point of delivery (connection) to serve them. **Cost breakdown provided. Not for release to customer - Cost Confidential**	PENDING	
39	3/18/09	2009-77620	L	APS is charging the Wickenburg – Habitat for Humanity $4,292.40 to extend service to a new home being built in Aguila, Arizona. The charge includes the cost of one Transformer and two 145 ft secondary service cables.	APS is providing power to a 1400 sq. foot home with a 3-ton air conditioner. APS will install a new 25KVA transformer on an existing pole, which is the closest source of power. APS will extend 185' wire from the overhead transformer a 200-amp service entrance section. The total cost to extend	PENDING	

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					service is $4,292.60. **Cost breakdown provided. Not for release to customer - Cost Confidential**		
40	3/31/09	2009-77962	T	Customer is requesting the Commission look into the cost that APS is charging to extend power to homes. Per customer, there is a power line 150' behind the location of where her house will be placed. Customer installed the meter base and had the conduit & trench put in place along with a pad for the transformer. Customer states, the only thing APS has to do is pull 150' of wire to install the meter and hook up to power line. APS is charging customer $5,675.91. The high cost is resulting from the charge for the transformer.	A new transformer will be required to serve the customer residence. The nearest source of power was 330' from the property line. (Total distance from the pedestal to the transformer is 500'). The total cost to extend electric service is $5,579.63. APS will cut into existing primary wire and install a new 25KVA transformer to serve customer.	PENDING	

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41	4/13/09	2009-78235	T	APS is charging the customer $13,217.00 to install service to his shop. APS currently provides service to this area. There is a transformer and pole approximately 98 ft from the shop. Per APS, service can not be provide from the existing facilities as there is not enough excess capacity on the existing transformer. APS is requiring service be extended from a line which is approximately 260 ft from the shop and is requiring customer pay the cost of installing two new poles and a 25 KVA transformer.	APS has an existing pole 98' from the customer's building. The 10KVA transformer is approximately 830' from his property. APS cannot adequately extend service to him from this point due to the length of the secondary wire and distance from the transformer. APS advised customer to extend service to the property his cost would be $13,000.00. APS would need to install 1-45 steel pole, 1-35 steel pole, 25KVA transformer, 173' of primary wire and 217 feet of secondary wire to extend new service to his building. APS has reviewed the design and found the second 35'-pole is not necessary. Revised contacts have been issued for $10,312.36 and include, 1-45' pole, 1-25KVA transformer, 173' of primary wire and 191' of service wire.	PENDING	
42	4/14/09	2009-78263	L	Customer has been working with APS for the past month in trying to obtain service to a lot that he is building a home on. The area is fully developed. There are three poles on the east side property line, another pole in the	Customer expressed interest in APS extending service from a pole (pole #362245) located 100 feet SE of the residence. APS advised that this is not a viable option since APS cannot access this pole. The pole is a joint use pole that houses other utility company's	PENDING	

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				North/South direction to the West End of the lot and a main line across the street from the lot which also has poles on it. APS is charging $10,000.00 to extend service. Customer does not understand how APS determined a fee of 10,000.00 to be appropriate when there are existing facilities surrounding his lot.	equipment and is surrounded by block walls. Even if access to the pole was not an issue, in order to serve the customer from this pole, APS would need to remove the existing pole and install a taller pole which would allow us clearance to place a transformer on this pole. APS would then run underground service to the NE corner of the home. APS provided a high level verbal quote of $14,000. The second option discussed and the option the customer chose was for APS to interest a primary pole 50 feet NE of the home. APS would then install an overhead transformer on this new pole and run approximately 50 feet of underground service from the pole to the home. APS provided a high level verbal quote of approximately $10,000 for this option.		
43	4/21/09	2009-78417	L	Customer requesting cost breakdown for the $12,149 quote from APS to extend service.	The job consists of installing a new 40' foot pole and converting the overhead to underground with a conversion dip. APS will then install a 50KVA transformer to serve the new building, which would have a 400-amp service entrance section. The		

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					total cost to extend service is $12,149.00.		
44	5/1/09	2009-78640	L	APS quoted the Phoenix VA Medical Center $3,175,600 to upgrade capacity, which APS indicated was necessary. After lengthy discussions between the VA engineers and APS, it was determined that the upgrade was not necessary.	The VA's load is not increasing at this time, therefore APS is not requiring that upgrades be made at this time. New feeders will not be required as long as the VA's load does not grow and exceed the maximum rated capacity of the existing feeders, 5.4 MVA. If new feeders are required in the future (i.e., if the customer's load exceeds the current rated capacity), APS will charge the VA hospital in accordance with the terms of APS's Service Schedule 3.	PENDING	
45	5/4/09	2009-78642	L	Customer needs to increase the size of our environmental remediation system and the new system requires 240 volts single phase max load 28 amps. APS has indicated that the cheapest and fastest way to get the power is to have the 5 kVa transformer at the	APS records note that a 12 month average KW demand on APS Meter No. 372924 was 6 KW. This represents approximately 7 KVA. Therefore, the transformer was already at, and during some months, exceeding its capacity. Customer requested to add a new 100A SES with	PENDING	

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				site upgraded to a 25kVa transformer, to get our own power meter installed, and install an overhead power line to the new meter (about 20 foot distance). (Either this, or an upgrade of Arizona Snowbowl power is acceptable to us.) Customer questions if the cost is reasonable and would like a breakdown.	120/240V service. The new metering section has a 100A Main breaker and 1- 60A 2-pole 240V breaker. Customer advised APS they were adding an additional 28 amps of load at 240V. This represented an added load of approximately 7 KVA to the existing 5 KVA transformer which exceeds its load capacity. This would justify replacing the 5 KVA with the next higher size transformer. The next standard transformer to meet this load is a 25KVA transformer. The estimate provided to the customer for $4,734.17.		

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